



Scentre Group

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SCG

AUD \$3.42

Core

MED.



A top Aussie shopping experience

Upon the implementation of the Westfield Group restructure, Scentre Group (ASX: SCG), the merged entity of Westfield Group's Australian assets and Westfield Retail Trust's assets recently debuted trading on the ASX. On the first day of trading 25 June 2014 Scentre Group securities closed at \$3.08 and have appreciated since, closing at \$3.40 yesterday.

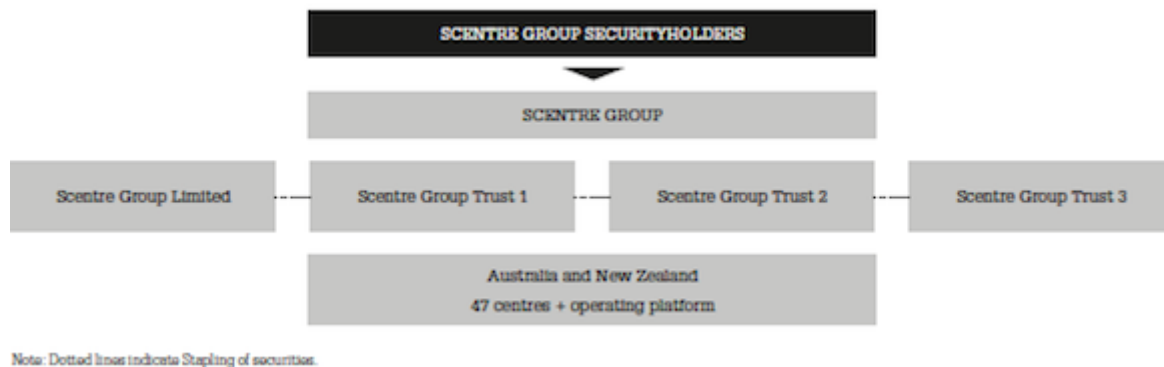
With undeniably the highest quality shopping centre portfolio in the region, a reasonable valuation and pipeline of development opportunities, we believe the new Scentre Group is a solid investment proposition. **Accordingly, Scentre Group will remain firmly held in the Fat Prophets portfolio. We recommend the shares as buy for Members without exposure and with a long term investment horizon.**



Overview

The stapled entities of Scentre Group comprise of Scentre Group Limited, Scentre Group Trust 1, Scentre Group Trust 2 and Scentre Group Trust 3, now trading under the SCG ticker on the Australian Stock Exchange.

A simplified diagram of the structure of Scentre Group is shown below.



Source: Westfield Trust explanatory memorandum

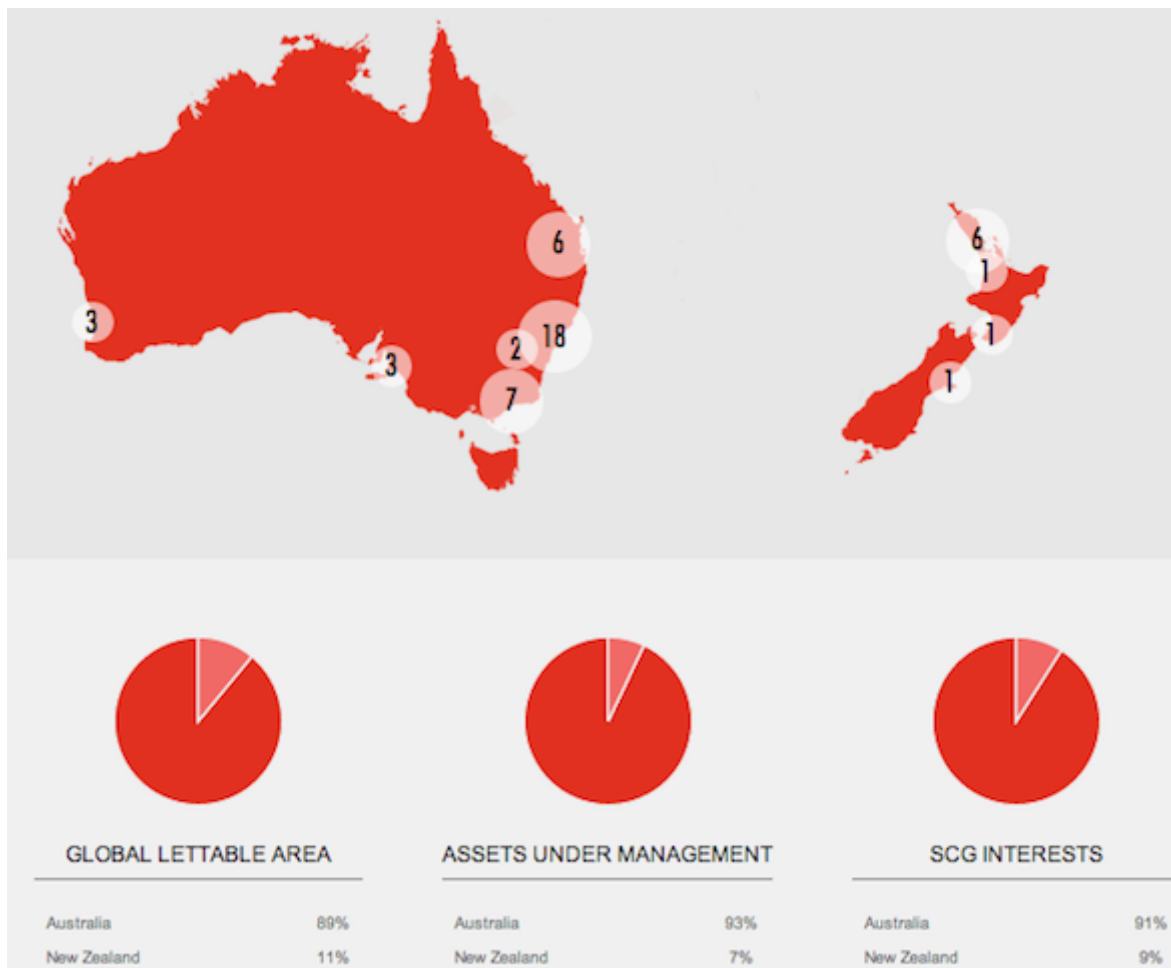
Scentre Group was formally created in June 2014 through the merger of the Westfield Retail Trust (formally ASX: WRT) and Westfield Group's (formally ASX: WDC) Australian and New Zealand business. For every 1,000 shares of Westfield Group held previously, shareholders will have received 1,000 shares in the new Westfield Corporation entity and 1,246 shares in Scentre Group.

Scentre Group has the clear industry-leading platform in the region with retail real estate assets under management (AUM) valued at over \$38 billion and shopping centre ownership interests valued at approximately \$28 billion.

Scentre Group is an internally managed and vertically integrated retail real estate company with property management, leasing, design, development, construction, marketing and funds management capabilities.

The company has an exclusive royalty free license to use the Westfield brand in Australia and New Zealand for existing centres and any future centres that meet certain pre-agreed characteristics. Mr Frank Lowy chairs the company and senior management has a deep reservoir of experience in the retail real estate space.

The shopping centres portfolio is of a high quality and centres tend to be in highly productive prime locations in their local markets providing a reliable income stream and the highest annual speciality sales per square metre in the region. The centres are anchored by long-term tenancies with well-known key retailers and encompass a range of luxury and 'high-street' retailers, providing a mix of fashion, leisure and entertainment options for shoppers. The following graphic provides a representation of the current regional footprint.

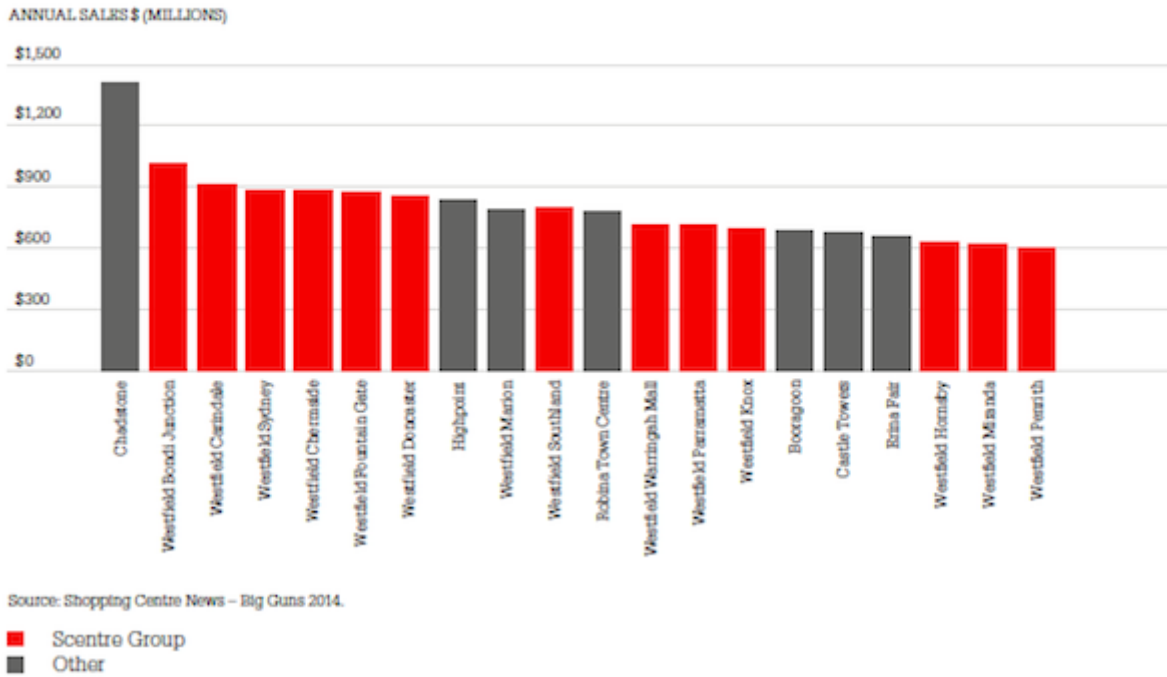


Source: Scentre Group website

The 47 centres in the portfolio house 12,544 retail outlets and attracted foot traffic of some 555 million visits last year generating over \$22 billion in retail sales. Gross lettable area (GLA) of the portfolio is approximately 3.8 million square metres.

The vast majority of the shopping centres situated in Australia, where the company has 38 shopping centres and \$36 billion in assets under management. The shopping centres are in attractive catchment areas, with some 70 percent of the Australian population living within approximately 30 minutes of a Westfield shopping centre. More than 70 percent of the of the Australian shopping centres (by value) generate sales of over \$500 million per year, with its biggest earners Westfield Bondi Junction, Cairndale and CDB Sydney.

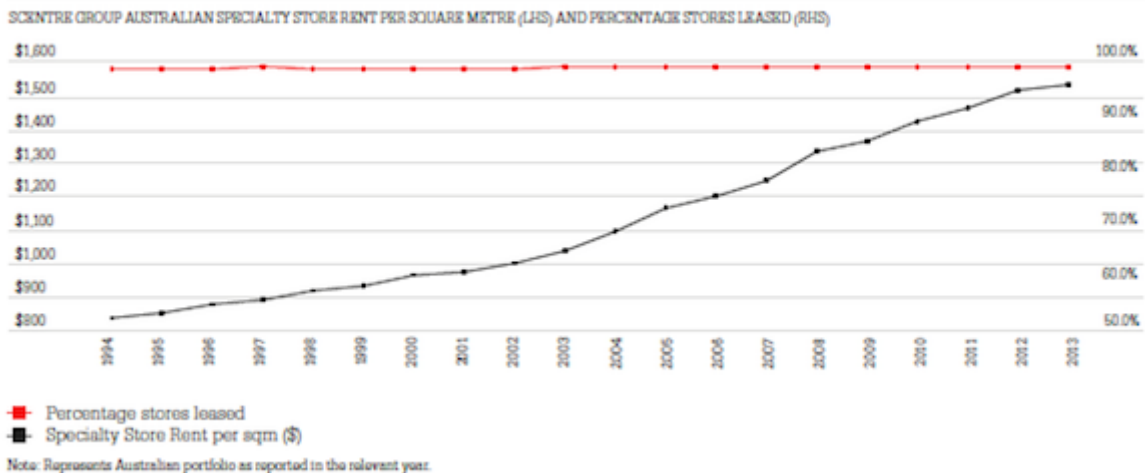
CHART 5.1.2: TOP SHOPPING CENTRES IN AUSTRALIA BY ANNUAL SALES (12 MONTHS TO 31 DECEMBER 2013)



Source: Westfield Trust explanatory memorandum

A number of properties in the Australian portfolio are owned in partnership with other leasing property entities. Joint Venture partner interests total about \$10 billion, with the Scentre Group’s share of AUM sitting at around 72 percent. Within the Australian portfolio are 14 of the top 20 shopping centres in the country by annual sales as shown in the chart above. **The Westfield shopping centres have consistently had a very high percentage of stores leased and speciality store rents per square metre have steadily risen over the past two decades.**

CHART 5.1.5: AUSTRALIAN SPECIALTY STORE RENT PER SQUARE METRE (LHS) AND PERCENTAGE STORES LEASED (RHS)



Source: Westfield Trust explanatory memorandum

In fact, the portfolio has been over 99 percent leased for the past two decades and is currently 99.5 percent leased. Speciality sales per square metre are the highest in Australia versus listed peers at \$9,901 and leases are structured to provide both income stability and growth. Leases with anchor tenants are generally

long term in nature, in the range of 15 – 25 years with stepped increases over the term based on fixed increases, CPI linked or sales turnover based.

In New Zealand the company has 9 centres, comprising some 0.4 million square metres in gross lettable area and assets under management of some NZ\$2.8 billion, wholly owned and managed by Scentre Group.

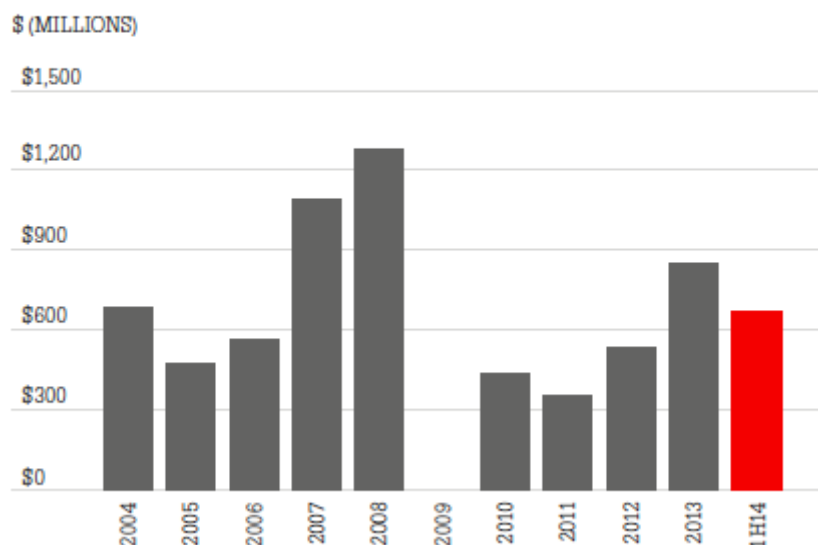
AUSTRALIA		NEW ZEALAND		TOTAL	
38	CENTRES	9	CENTRES	47	CENTRES
11,135	RETAIL OUTLETS	1,409	RETAIL OUTLETS	12,544	RETAIL OUTLETS
3.4	GLA (M SQM)	0.4	GLA (M SQM)	3.8	GLA (M SQM)
\$26.0	SCENTRE GROUP INTERESTS (BN)	NZ\$2.8	SCENTRE GROUP INTERESTS (BN)	\$28.6	SCENTRE GROUP INTERESTS (BN)
\$10.0	JV PARTNER INTERESTS (BN)	NZ\$0.0	JV PARTNER INTERESTS (BN)	\$10.0	JV PARTNER INTERESTS (BN)
\$36.0	ASSETS UNDER MANAGEMENT (BN)	NZ\$2.8	ASSETS UNDER MANAGEMENT (BN)	\$38.6	ASSETS UNDER MANAGEMENT (BN)
72%	SCENTRE GROUP SHARE OF AUM	100%	SCENTRE GROUP SHARE OF AUM	74%	SCENTRE GROUP SHARE OF AUM

Source: Scentre Group website

Scentre Group's strategy is to develop and own superior retail destinations by creating retail destinations that integrate fashion, with dining, leisure and entertainment options. The company is also focused on utilising technology to better connect its retailing tenants with consumers. Growth is targeted by continually attempting to improve the shopping experience and quality of assets and expanding or acquiring new centres.

The following chart shows development commencements in Australia and New Zealand since 2004.

CHART 5.3.1: AUSTRALIAN AND NEW ZEALAND DEVELOPMENT COMMENCEMENTS 2004 TO 1H14



Source: Westfield Trust explanatory memorandum

The absence of commencements in 2009 reflected Westfield Group's decision to not commence any major projects in that year due to the global financial crisis. Excluding 2009, Westfield commencements averaged about \$700 million per annum. The last 10 years saw the completion of some 26 developments with a value of approximately \$6 billion and included flagship projects such as the \$1.2 billion Westfield Sydney and a \$0.6 billion project at Doncaster.

At the time of the beginning of trading for Scentre Group the company had \$4.9 billion of current and future projects on the board, with the Scentre Group share of expenditure pinned at \$2.6 billion. Current projects under construction total approximately \$1.9 billion (Scentre Group share \$0.6 billion) including the \$436 million Miranda, NSW project and the \$400 million Mt Gravatt, Queensland project as well as two third party construction projects.

Future development and construction opportunities total \$3 billion (Scentre Group share \$2 billion).

Table 5.3.2: Future development opportunities in Australia and New Zealand

Australia		New Zealand	
- Carousel (WA)	- North Lakes (QLD)	- Albany	
- Chatswood (NSW) ⁽¹⁾	- Plenty Valley (VIC)	- Newmarket ⁽¹⁾	
- Chermside (QLD) ⁽¹⁾	- Tea Tree Plaza (SA)	- St Lukes	
- Knox (VIC)	- Tuggerah (NSW)		
- Kotara (NSW) ⁽¹⁾	- Warringah (NSW) ⁽¹⁾		
- Marion (SA) ⁽¹⁾	- Whitford City (WA)		

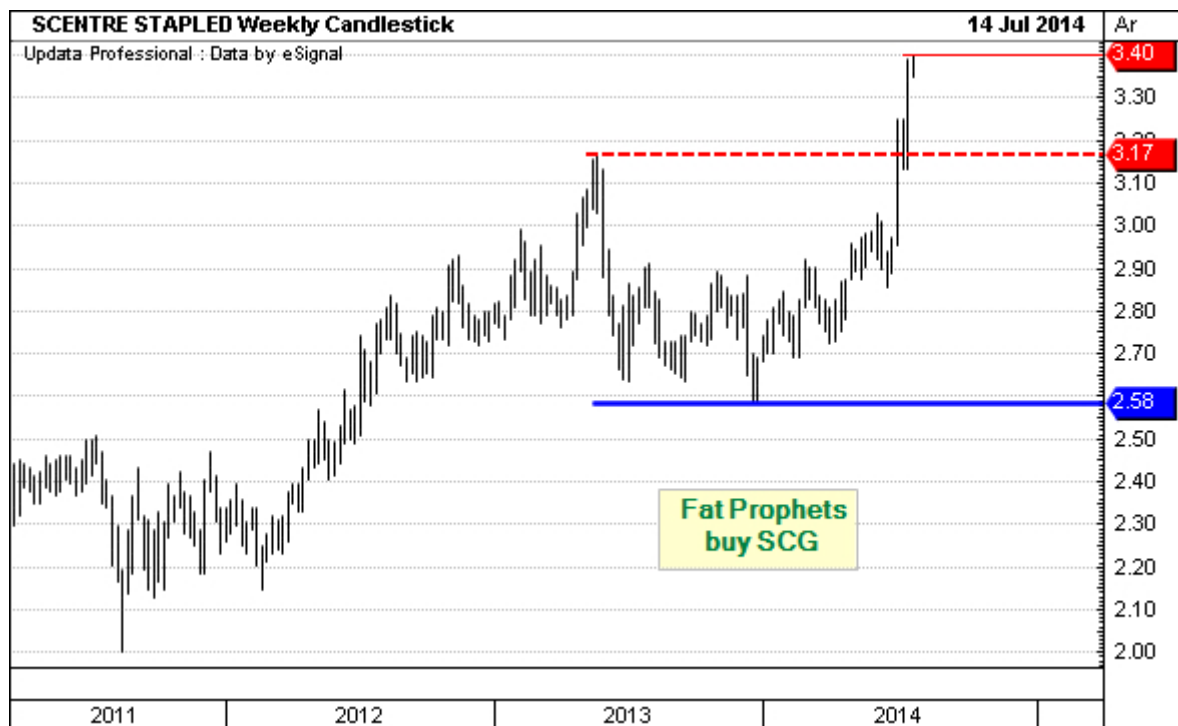
(1) Expected to commence over the next three years.

Source: Westfield Trust explanatory memorandum

Management are targeting unlevered internal rates of return of 12% to 15%. Given management's prior strong track record of development and the vertically integrated nature (provides development and management fee savings) of Scentre Group there is a good chance the company could hit at least the lower end of this target range.

The continued low interest rate environment is supportive for Scentre Group in a couple of ways. Firstly, with lower debt repayments consumers feel more secure about their finances and more likely to spend, buoying prospective sales in Westfield shopping centres. In addition Scentre Group in our view may be able to improve its interest rate management over the base case assumed at the time of the proposal to form Scentre Group.

Furthermore, the business is underpinned by industry leading occupancy rates and the level of speciality sales within Westfield shopping centres.



Summary

In the short term we expect trading in Scentre Group to be influenced by significant trading flows as investors move their holdings into their preferred exposure of either Westfield Corporation or Scentre Group or some blend of each.

Scentre Group has easily the best shopping centre portfolio in Australasia and we expect to see an ongoing optimisation of that portfolio over time, executed in a similar fashion to Westfield Corporations strategy of some asset sales replaced by higher quality properties. In addition Scentre Group has the benefit of starting life with a highly experienced management team, trades at a reasonable valuation and has the opportunity to improve its interest rate management in a low interest rate environment.

Scentre Group is currently trading on circa 15.5 times December 2014 earnings estimates and offering a potential yield of 6 percent. This valuation seems reasonable to us given the quality of the company's assets and pipeline of development opportunities.

Consequently, Scentre Group will remain firmly held in the Fat Prophets portfolio. We recommend the shares as buy for Members without exposure and with a long term investment horizon.

Disclosure: Scentre Group is held within the Fat Prophets Australian Share Income Model.

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Snapshot SCG

Scentre Group

Latest Closing Price: \$3.42

Scentre Group Limited manages, develops and has an ownership interest in Westfield branded shopping centers in Australia and New Zealand. The Company has a portfolio of approximately 38 Westfield shopping centers in all metropolitan cities and some regional centers. The Australian portfolio has around 11,135 retail outlets in 3.4 million square meters of retail space. The Company has an interest in nine centers with over 1,400 retail outlets in excess of 379,000 square meters of retail space. Its Westfield Chatswood is located in the affluent Northern Suburbs of Sydney, approximately 11 kilometers from the CBD. Westfield North Lakes is located 25 kilometers north of Brisbane's CBD. Its Westfield Kotara is located six kilometers south-west of Newcastle's CBD.

Market Capitalisation:\$18.1b

	FY1	FY2
Price to Earnings	15.5	14.9
Dividend Yield (%)	6.0	6.2
Price to Book	1.1	1.1

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